

NOTICE PUBLICATION/REGULATIONS SUBMISSION

See instructions on
(reverse)

For use by Secretary of State only

STD. 400 (REV. 01-09)

OAL FILE NUMBERS	NOTICE FILE NUMBER Z-	REGULATORY ACTION NUMBER	EMERGENCY NUMBER 209-1130-01 E
For use by Office of Administrative Law (OAL) only			
NOTICE		REGULATIONS	

2009 NOV 30 AM 10:06
OFFICE OF
ADMINISTRATIVE LAW

AGENCY WITH RULEMAKING AUTHORITY

California Board of Accountancy

AGENCY FILE NUMBER (If any)

A. PUBLICATION OF NOTICE (Complete for publication in Notice Register)

1. SUBJECT OF NOTICE		TITLE(S)	FIRST SECTION AFFECTED	2. REQUESTED PUBLICATION DATE
3. NOTICE TYPE <input type="checkbox"/> Notice re Proposed Regulatory Action <input type="checkbox"/> Other		4. AGENCY CONTACT PERSON	TELEPHONE NUMBER	FAX NUMBER (Optional)
OAL USE ONLY	ACTION ON PROPOSED NOTICE <input type="checkbox"/> Approved as Submitted <input type="checkbox"/> Approved as Modified <input type="checkbox"/> Disapproved/Withdrawn		NOTICE REGISTER NUMBER	PUBLICATION DATE

B. SUBMISSION OF REGULATIONS (Complete when submitting regulations)

1a. SUBJECT OF REGULATION(S) Peer Review Program	1b. ALL PREVIOUS RELATED OAL REGULATORY ACTION NUMBER(S)
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2. SPECIFY CALIFORNIA CODE OF REGULATIONS TITLE(S) AND SECTION(S) (Including title 26, if toxics related)	
SECTION(S) AFFECTED (List all section number(s) individually. Attach additional sheet if needed.)	ADOPT 39, 40, 41, 42, 43, 44, 45, 46, 48, 48.1, 48.2, 48.3, 48.5, and 48.6
TITLE(S) 16	AMEND
	REPEAL

3. TYPE OF FILING			
<input type="checkbox"/> Regular Rulemaking (Gov. Code §11346)	<input type="checkbox"/> Certificate of Compliance: The agency officer named below certifies that this agency complied with the provisions of Gov. Code §§11346.2-11347.3 either before the emergency regulation was adopted or within the time period required by statute.	<input type="checkbox"/> Emergency Readopt (Gov. Code, §11346.1(h))	<input type="checkbox"/> Changes Without Regulatory Effect (Cal. Code Regs., title 1, §100)
<input type="checkbox"/> Resubmittal of disapproved or withdrawn nonemergency filing (Gov. Code §§11349.3, 11349.4)	<input type="checkbox"/> Resubmittal of disapproved or withdrawn emergency filing (Gov. Code, §11346.1)	<input type="checkbox"/> File & Print	<input type="checkbox"/> Print Only
<input checked="" type="checkbox"/> Emergency (Gov. Code, §11346.1(b))		<input type="checkbox"/> Other (Specify) _____	

4. ALL BEGINNING AND ENDING DATES OF AVAILABILITY OF MODIFIED REGULATIONS AND/OR MATERIAL ADDED TO THE RULEMAKING FILE (Cal. Code Regs. title 1, §44 and Gov. Code §11347.1)
N/A

5. EFFECTIVE DATE OF CHANGES (Gov. Code, §§ 11343.4, 11346.1(d); Cal. Code Regs., title 1, §100)			
<input type="checkbox"/> Effective 30th day after filing with Secretary of State	<input type="checkbox"/> Effective on filing with Secretary of State	<input type="checkbox"/> \$100 Changes Without Regulatory Effect	<input checked="" type="checkbox"/> Effective other (Specify) January 1, 2010

6. CHECK IF THESE REGULATIONS REQUIRE NOTICE TO, OR REVIEW, CONSULTATION, APPROVAL OR CONCURRENCE BY, ANOTHER AGENCY OR ENTITY			
<input checked="" type="checkbox"/> Department of Finance (Form STD. 399) (SAM §6660)	<input type="checkbox"/> Fair Political Practices Commission	<input type="checkbox"/> State Fire Marshal	
<input checked="" type="checkbox"/> Other (Specify) BRIAN J. STIGER, DIRECTOR, DEPT. OF CONSUMER AFFAIRS <i>Brian J. Stiger</i>			

7. CONTACT PERSON Matthew Stanley	TELEPHONE NUMBER (916) 561-1792	FAX NUMBER (Optional) (916) 263-3675	E-MAIL ADDRESS (Optional) mstanley@cba.ca.gov
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8. I certify that the attached copy of the regulation(s) is a true and correct copy of the regulation(s) identified on this form, that the information specified on this form is true and correct, and that I am the head of the agency taking this action, or a designee of the head of the agency, and am authorized to make this certification.

SIGNATURE OF AGENCY HEAD OR DESIGNEE <i>Patti Bowers</i>	DATE 10/29/09
TYPED NAME AND TITLE OF SIGNATORY Patti Bowers, Executive Officer	

For use by Office of Administrative Law (OAL) only

**CALIFORNIA DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
ORDER OF ADOPTION**

The California Board of Accountancy hereby adopts Sections 39, 40, 41, 42, 43, 44, 45, 46, 48, 48.1, 48.2, 48.3, 48.5, 48.6 to Division 1 of Title 16 of the California Code of Regulations as follows:

Adopt Section 39 to read as follows:

39. Definitions.

(a) Accounting and Auditing Practice: Any services that are performed using the following professional standards: Statements on Auditing Standards (SASs), Statements on Standards for Accounting and Review Services (SSARS), Statements on Standards on Attestation Engagements (SSAEs), Government Auditing Standards, and audits of non-Security Exchange Commission (SEC) issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB).

(b) Peer Review Report: A report issued to the peer reviewed firm which documents the findings and conclusions reached by a qualified peer reviewer and issued in accordance with Section 48(b) of this Article.

(c) Pass Peer Review Report: A report issued to the peer reviewed firm in accordance with either Section 48(b)(1)(A) or 48(b)(2)(A) of this Article.

(d) Pass With Deficiencies Peer Review Report: A report issued to the peer reviewed firm in accordance with either Section 48(b)(1)(B) or 48(b)(2)(B) of this Article.

(e) Substandard Peer Review Report: A report issued to the peer reviewed firm under either Section 48(b)(1)(C) or 48(b)(2)(C) of this Article.

(f) Peer Reviewer: A certified public accountant holding a valid and active license to practice public accounting in good standing issued by this state or some other state who (1) maintains a currency of knowledge in professional standards governing accounting and auditing engagements, (2) meets the qualifications of Section 48(c) of this Article, and (3) is unaffiliated with the firm being reviewed.

(g) Peer Review Team: One or more individuals who collectively conduct a peer review, at least one of whom is a qualified peer reviewer.

NOTE: Authority cited: Sections 5010 and 5076, Business and Professions Code.
Reference: Section 5076, Business and Professions Code.

Adopt Section 40 to read as follows:

40. Enrollment and Participation.

(a) Commencing with the operative date prescribed by Section 45(b), a firm operating or maintaining an accounting and auditing practice shall have a peer review report accepted by a Board-recognized peer review program within 36 months prior to its first reporting date and have a peer review report accepted by a Board-recognized peer review program once every three years in order to renew its license.

(b) Each firm licensed after the operative date of this Article that performs services in an accounting and auditing practice shall have a peer review report accepted by a Board-recognized peer review program within 18 months of the completion of the services.

(c) Should a firm begin performing services as defined in Section 39(a) of this Article after the operative date prescribed by Section 45(b), the firm shall have a peer review report accepted by a Board-recognized peer review program within 18 months of the completion of the services.

NOTE: Authority cited: Sections 5010 and 5076, Business and Professions Code.

Reference: Section 5076, Business and Professions Code.

Adopt Section 41 to read as follows:

41. Firm Responsibilities.

A firm shall cooperate with the Board-recognized peer review program provider with which the firm is enrolled to arrange, schedule, and complete a peer review, in addition to taking and completing any remedial or corrective actions prescribed by the Board-recognized peer review program provider.

NOTE: Authority cited: Sections 5010 and 5076, Business and Professions Code.

Reference: Section 5076, Business and Professions Code.

Adopt Section 42 to read as follows:

42. Exclusions.

(a) The following shall be excluded from the peer review requirement:

(1) Any of a firm's engagements subject to inspection by the Public Company Accounting Oversight Board as part of its inspection program.

(2) Firms, which as their highest level of work, perform only compilations where no report is issued in accordance with the provisions of the Statements on Standards for Accounting and Review Services (SSARS).

NOTE: Authority cited: Sections 5010 and 5076, Business and Professions Code.
Reference: Section 5076, Business and Professions Code.

Adopt Section 43 to read as follows:

43. Extensions.

(a) Should an extension of time be needed to have a peer review report accepted by a Board-recognized peer review program such request shall be submitted to the Board-recognized peer review program with which the firm is enrolled for consideration and approval or denial.

(b) If the extension granted extends past the firm's reporting date, the firm shall notify the Board of the extension and provide proof of the extension. The firm shall report the results of the peer review to the Board on form PR-1 (01/10), as referenced in Section 45, within 45 days of the peer review report being accepted by a Board-recognized peer review program.

NOTE: Authority cited: Sections 5010 and 5076, Business and Professions Code.
Reference: Section 5076, Business and Professions Code.

Adopt Section 44 to read as follows:

44. Notification of Expulsion.

A firm that is expelled by a Board-recognized peer review program shall notify the Board in writing within 30 days and provide the name of the Board-recognized peer review program and reason(s) given to the firm by the peer review program for the expulsion.

NOTE: Authority cited: Sections 5010 and 5076, Business and Professions Code.
Reference: Section 5076, Business and Professions Code.

Adopt Section 45 to read as follows:

45. Reporting to the Board.

(a) Based on the dates identified in subsection (b), a firm shall report to the Board specific peer review information as required on form PR-1 (1/10), which is hereby incorporated by reference.

(b) The operative date of existing California-licensed firms to begin reporting peer review results shall be based on a firm's license number according to the following schedule: for license numbers ending with 01-33 the reporting date is no later than July 1, 2011; for license numbers ending with 34-66 the reporting date is no later than July 1, 2012; for license numbers ending with 67-00 the reporting date is no later than July 1, 2013.

(c) A firm licensed after the operative date of this Article that performs accounting and auditing services or a firm not previously required to undergo a peer review shall have a peer review report accepted by a Board-recognized peer review program no later than 18-months after the completion of the services as required by Section 40. Upon the acceptance of the peer review report, the firm shall report specific peer review information to the Board on form PR-1 (1/10).

NOTE: Authority cited: Sections 5010 and 5076, Business and Professions Code.
Reference: Section 5076, Business and Professions Code.

Adopt Section 46 to read as follows:

46. Document Submission Requirements.

(a) A firm receiving a peer review report issued under Section 48(b)(1)(C) or (b)(2)(C) shall submit a copy of the peer review report to the Board including any materials documenting the prescription of remedial or corrective actions imposed by a Board-recognized peer review program provider within 45 days of the peer review report being accepted by a Board-recognized peer review program provider. A firm shall, if available, also submit to the Board, within the same 45-day reporting period, any materials documenting completion of any or all of the prescribed remedial or corrective actions.

(b) Upon request by the Board, a firm shall submit to the Board all requested documents related to the peer review including:

(1) If the firm received a peer review report issued under Section 48(b)(1)(A) or (b)(2)(A) it shall submit the copy of the peer review report including materials documenting the acceptance of the report.

(2) If the firm received a peer review report issued under Section 48(b)(1)(B) or (b)(2)(B) it shall submit the copy of peer review report including any materials documenting the prescription of remedial or corrective actions imposed by a Board-

recognized peer review program provider. In addition, a firm shall, if available, also submit any materials documenting completion of any or all of the prescribed remedial or corrective actions.

(c) Any documents required for submission as part of this section may be submitted electronically.

NOTE: Authority cited: Sections 5010 and 5076, Business and Professions Code.
Reference: Section 5076, Business and Professions Code.

Adopt Section 48 to read as follows:

48. Minimum Requirements for a Peer Review Program.

For a peer review program provider to receive Board recognition and be authorized to administer peer reviews in California, the peer review program provider must submit evidence to the satisfaction of the Board that the peer review program is comprised of a set of standards for performing, reporting on, and administering peer reviews. A peer review program must include the following components:

(a) Peer Review Types

A peer review program must have a minimum of two types of peer reviews to include the following:

(1) For firms performing engagements under the Statements on Auditing Standards (SASs), Government Auditing Standards, examinations of prospective financial statements under the Statements on Standards on Attestation Engagements, or audits of non-Security Exchange Commission (SEC) issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB), the firm must undergo a peer review designed to test the firm's system of quality control. The scope of the peer review shall be such that it provides a peer reviewer with a reasonable assurance that a firm's system of quality control was designed in accordance with professional standards and was complied with by a firm's personnel.

(2) For firms only performing engagements under the Statements on Standards for Accounting and Review Services (SSARS) or under Statements on Standards on Attestation Engagements (SSAEs) not encompassed in review performed under subsection (a)(1), the firm must undergo a peer review designed to test a cross-section of a firm's engagements to assess whether the engagements were performed in conformity with the applicable professional standards.

(b) Peer Review Report Issuance

(1) For firms undergoing peer reviews pursuant to subsection (a)(1), one of the following three types of peer review reports shall be issued:

(A) A peer review report indicating that a peer reviewer or peer review team concluded that a firm's system of quality control was suitably designed and complied with by the

firm's personnel, which provides the firm with reasonable assurance of performing and reporting on engagements in conformity with applicable professional standards.

(B) A peer review report indicating that a peer reviewer or peer review team concluded that a firm's system of quality control was suitably designed and complied with by the firm's personnel with the exception of a certain deficiency or deficiencies that are described in the report. The deficiencies are such that the firm's design of or compliance with its system could create a situation in which the firm would have less than reasonable assurance of performing and/or reporting on engagements in conformity with applicable professional standards.

(C) A peer review report indicating that a peer reviewer or peer review team concluded that a firm's system of quality control is not suitably designed or complied with by the firm's personnel, and thus, does not provide the firm with reasonable assurance of performing and reporting on engagements in conformity with applicable professional standards.

(2) For firms undergoing peer reviews pursuant to subsection (a)(2), one of the following three types of peer review reports shall be issued:

(A) A peer review report indicating that a peer reviewer or peer review team concluded that there was no evidence which would cause the peer reviewer to believe that the engagements performed by the firm were not performed in conformity with applicable professional standards.

(B) A peer review report indicating that a peer reviewer or peer review team concluded that, with the exception of a certain deficiency or deficiencies, nothing would cause the peer reviewer to believe that the engagements performed by the firm and submitted for review were not performed in conformity with applicable professional standards. The deficiencies identified were such that the peer reviewer concluded they were material to the understanding of the report or financial statements or represented omission of critical procedures required by applicable professional standards.

(C) A peer review report indicating that a peer reviewer or peer review team concluded that the engagements reviewed were not performed and/or reported on in conformity with applicable professional standards. In issuing such report, the peer reviewer shall assess both the significance of the deficiencies identified and the pervasiveness of the deficiencies.

(c) Peer Reviewer Qualifications

A peer review program must include minimum qualifications for an individual to qualify as a peer reviewer and perform peer reviews in accordance with the program's peer review standards. The qualifications shall, at a minimum, include the following:

(1) Have a valid and active license in good standing to practice public accounting issued by this state or other state.

(2) Be actively involved and practicing at a supervisory level in a firm's accounting and auditing practice.

(3) Maintain a currency of knowledge of the professional standards related to accounting and auditing, including those expressly related to the type or kind of practice to be reviewed.

(4) Provide the Board-recognized peer review program provider with his/her qualifications to be a reviewer, including recent industry experience.

(5) Be associated with a firm that has received a peer review report issued in accordance with subsection (b)(1)(A) or (b)(2)(A) of this section as part of the firm's last peer review.

(d) Planning and Performing Peer Reviews

A peer review program must include minimum guidelines and/or standards for planning and performing peer reviews commensurate with the type of peer review being performed to include, but not limited to, the following:

(1) For peer reviews performed in accordance with subsection (a)(1) of this section, a peer review program's guidelines and/or standards must include the following:

(A) Ensuring that prior to performing a peer review, a peer reviewer or a peer review team takes adequate steps in planning a peer review to include the following: (i) obtain the results of a firm's prior peer review (if applicable), (ii) obtain sufficient understanding of the nature and extent of a firm's accounting and auditing practice, (iii) obtain a sufficient understanding of a firm's system of quality control and the manner in which the system is monitored by a firm, and (iv) select a representative cross-section of a firm's engagements.

(B) In performing a peer review, the peer reviewer or peer review team must test the reviewed engagements while assessing the adequacy of and compliance with a firm's system of quality control. The peer review is intended to provide the peer reviewer or peer review team with reasonable basis for expressing an opinion as to whether a firm's system of quality control is suitably designed and complied with by a firm's personnel such that the firm has reasonable assurance of performing and reporting on engagements in conformity with applicable professional standards.

(2) For peer reviews performed in accordance with subsection (a)(2) of this section, a peer review program's guidelines and/or standards must include the following:

(A) Ensuring that prior to performing a peer review, a peer reviewer or peer review team select a representative cross-section of a firm's accounting and auditing engagements to include at a minimum one engagement for each partner, shareholder, owner, principal, or licensee authorized to issue reports.

(B) In performing a peer review, the peer reviewer or peer review team shall review the selected engagements to determine if the engagements were performed in conformity with the applicable professional standards.

(3) Nothing in a peer review program provider's guidelines and/or standards shall prohibit a peer reviewer or peer review team from disclosing pertinent peer review-related information regarding a firm to a subsequent peer reviewer.

(e) Peer Review Program Plan of Administration and Accepting Peer Review Reports

(1) The administration plan shall clearly outline the manner in which the peer review program provider intends on administering peer reviews and must, at a minimum, include the following:

(A) Identify a peer review committee, and if necessary subcommittees, and employ knowledgeable staff for the operation of the review program as needed.

(B) Establish and perform procedures for insuring that reviews are performed and reported on in accordance with the program's established standards for performing and reporting on peer reviews.

(C) Establish a program to communicate to firms participating in the peer review program the latest developments in peer review standards and the most common findings in peer reviews conducted by the Board-recognized peer review program provider.

(D) Establish and document procedures for an adjudication process designed to resolve any disagreement(s) which may arise out of the performance of a peer review, and resolve matters which may lead to the dismissal of a firm from the provider's peer review program.

(E) Establish guidelines for prescribing remedial or corrective actions designed to assure correction of the deficiencies identified in a firm's peer review report.

(F) Establish guidelines for monitoring the prescribed remedial and corrective actions to determine compliance by the reviewed firm.

(G) Establish and document procedures for ensuring adequate peer reviewers to perform peer reviews. This shall include ensuring a breadth of knowledge related to industry experience.

(H) Establish and document procedures to ensure the qualifications of peer reviewers and to evaluate a peer reviewer's performance on peer reviews.

(I) Establish a training program or training programs designed to maintain or increase a peer reviewer's currency of knowledge related to performing and reporting on peer reviews.

(J) Establish and document procedures to ensure that a firm requiring a peer review selects a peer reviewer with similar practice experience and industry knowledge, and peer reviewer are performing a peer review for a firm with which the reviewer has similar practice experience and industry knowledge.

(K) Require the maintenance of records of peer reviews conducted under the program. Such records shall include, at a minimum, written records of all firms enrolled in the peer review program and documents required for submission under Section 46, with these documents to be retained until the completion of a firm's subsequent peer review.

(L) Provide for access by the Board's Peer Review Oversight Committee of all materials and documents required for the administration of peer reviews.

(2) As required by subsection (e)(1)(A) of this section, the peer review program provider shall establish a peer review committee to assist in the review and acceptance of peer review reports. The peer review program provider's committee shall:

(A) Meet regularly to consider and accept peer review reports.

(B) Assist the peer review program provider in resolving instances in which there is a lack of cooperation and agreement between the committee and peer reviewer or reviewed firm in accordance with the peer review program's adjudication process.

(C) Make a final determination on a peer review report pursuant to subdivision (b).

(f) The peer review committee established by the peer review program provider shall comply with the following in relation to the composition of the committee:

(1) All committee members must meet the peer reviewer qualification requirements established in Section 48(c).

(2) In determining the size of the committee, consideration shall be given to the requirement for broad industry experience, and the likelihood that some members will need to recuse themselves from some reviews as a result of the member's close association to the firm or having performed the review.

(3) No committee member may concurrently serve as a member of the Board.

(4) A committee member may not participate in any discussion or have any vote with respect to a reviewed firm when the member lacks independence as defined by California Code of Regulations Section 65 or has a conflict of interest. Examples of conflicts of interest include, but are not limited to:

(A) the member's firm has performed the most recent peer review of the reviewed firm's accounting and auditing practice.

(B) the member served on the review team which performed the current or the immediately preceding review of the firm.

(C) the member believes he/she cannot be impartial or objective.

(5) Each member of the committee shall comply with all confidentiality requirements. The peer review program provider shall annually require its committee members to sign a statement acknowledging their appointments and the responsibilities and obligations of their appointments.

NOTE: Authority Cited: Section 5010s and 5076, Business and Professions Code.
Reference: Section 5076, Business and Professions Code.

Adopt Section 48.1 to read as follows:

48.1. Board-Recognition of the American Institute of Certified Public Accountants, Inc. Peer Review Program.

The American Institute of Certified Public Accountants, Inc. Peer Review Program is hereby recognized as meeting the minimum peer review program requirements as outlined in Section 48 of this Article and is authorized to administer peer reviews in California. If in the future the Board deems the American Institute of Certified Public Accountants, Inc. Peer Review Program to no longer meet the minimum qualifications specified in Section 48 of this Article, the Board shall rescind its recognition pursuant to Section 48.5 of this Article.

NOTE: Authority cited: Sections 5010 and 5076, Business and Professions Code.
Reference: Section 5076, Business and Professions Code.

Adopt Section 48.2 to read as follows:

48.2. Applying to Become a Board-Recognized Peer Review Program.

Prior to receiving Board recognition to perform peer reviews in California, a peer review program provider shall submit the following application: *Application to Become a Board-Recognized Peer Review Program* (1/10), which is hereby incorporated by reference. With the application, the firm must submit materials evidencing the program meets the requirements outlined in Section 48.

NOTE: Authority Cited: Sections 5010 and 5076, Business and Professions Code.
Reference: Section 5076, Business and Professions Code.

Adopt Section 48.3 to read as follows:

48.3. Board-Recognized Peer Review Program Provider Reporting Responsibilities.

(a) Upon request of the Board or Peer Review Oversight Committee, a Board-recognized peer review program provider shall make available, at a minimum, the following:

(1) Standards, procedures, guidelines, training materials, and similar documents prepared for the use of reviewers and reviewed firms.

(2) Information concerning the extent to which the Board-recognized peer review program provider has reviewed the quality of reviewers' working papers in connection with the acceptance of reviews.

(3) Statistical data maintained by the Board-recognized peer review program provider related to its role in the administration of peer reviews.

(4) Information concerning the extent to which the Board-recognized peer review program provider has reviewed the qualifications of its reviewers.

(5) Sufficient documents to conduct sample reviews of peer reviews accepted by the Board-recognized peer review program provider. These may include, but are not limited to; the report; reviewer working papers prepared or reviewed by the Board-recognized peer review program's peer review committee in association with the acceptance of the review; and materials concerning the acceptance of the review, the imposition of required remedial or corrective actions, the monitoring procedures applied, and the results.

(b) A Board-recognized peer review program provider shall provide the Board in writing or electronically the name of any California-licensed firm expelled from the peer review program and provide the reason(s) for expulsion. The Board-recognized peer review program provider shall submit this information to the Board within 30 days of notifying the firm of its expulsion.

(1) Nothing in this subsection shall require a board-recognized peer review program provider when administering peer reviews in another state to violate the laws of that state.

NOTE: Authority cited: Sections 5010, 5076, and 5076.1, Business and Professions Code. Reference: Section 5076, Business and Professions Code.

Adopt Section 48.5 to read as follows:

48.5. Withdrawal of Board Recognition.

(a) The Board may rescind and withdrawal its recognition of a peer review program if it is determined that the peer review program is not in compliance with the requirements of this Article, the provider failed to respond to an informational request by the Board or the Peer Review Oversight Committee, or the provider made any material misrepresentation of fact related to any information required to be submitted to the Board or the Peer Review Oversight Committee.

(b) The order of withdrawal of Board recognition shall be issued by the Board or its executive officer, without prior notice or hearing, and is effective immediately when mailed to the peer review program provider's address of record.

(c) The order of withdrawal of Board recognition shall contain the following:

(1) The reason for the withdrawal, including the specific statutes and regulations with which the individual must show compliance by producing proof at a hearing before the Board.

(2) A statement that the peer review program provider has the right, within 30 days, to request an informal hearing to the withdrawal of Board recognition.

(3) A statement that any informal hearing shall be scheduled before the Board or its designee, at which time a peer review program provider shall be afforded the opportunity to be heard.

(d) The burden of proof shall be placed on the peer review program provider to demonstrate both qualifications and fitness to perform peer reviews in California and maintain Board recognition.

(e) If the peer review program provider fails to notify the Board's executive officer in writing and in a timely manner that it desires to contest the written withdrawal of Board recognition, the decision to withdraw approval shall become final.

NOTE: Authority cited: Sections 5010, 5076, and 5076.1, Business and Professions Code. Reference: Section 5076, Business and Professions Code.

Adopt Section 48.6 to read as follows:

48.6. Records of Proceedings.

For any informal hearings conducted by the Board pursuant to Sections 48.4 and 48.5 of this Article, the Board shall maintain a record of its proceedings, such as the minutes of the meeting or an audio recording of the meeting.

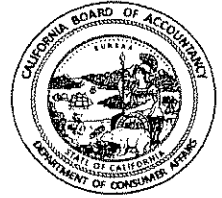
NOTE: Authority cited: Sections 5010, 5076, and 5076.1, Business and Professions Code. Reference: Section 5076, Business and Professions Code.

A handwritten signature in black ink, reading "Patti Bowers", written over a horizontal line.

Patti Bowers
Executive Officer
California Board of Accountancy



DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



PEER REVIEW REPORTING FORM PR-1 (01/10)



**PEER REVIEW
REPORTING FORM**

ACCOUNTING FIRM INFORMATION

Do you operate as a firm (including a sole proprietorship)?

☐ Yes

☐ No (If no, please sign and date on the reverse of the form.)

Firm Name: _____

License #: _____ Expiration Date: _____

Business Telephone #: _____ Business E-mail Address: _____

Firm Type (check one):
☐ Sole Proprietorship
☐ General Partnership
☐ Limited Liability Partnership
☐ Corporation

Number of shareholders, partners, owners,
and full-time licensees of the firm:

<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4
<input type="checkbox"/> 5-10	<input type="checkbox"/> 11-99	<input type="checkbox"/> 100+	

Did your firm perform any accounting and
auditing services that require you to undergo a
peer review?

☐ Yes
☐ No (If no, please sign and date on the reverse of the form.)

PEER REVIEW INFORMATION

1. Date Peer Review Report Accepted: _____

2a. Peer Review Report Rating:

☐ Pass (Go to question 3.)
☐ Pass w/deficiencies (Go to question 3.)
☐ Substandard (Go to question 2b.)

2b. Did your firm submit the peer review report
to the Board within the required 45-day
reporting period?

☐ Yes
☐ No (If no, please attach a written explanation as to why the report was not submitted timely.)

PEER REVIEW INFORMATION (continued)

- 3a. Was the peer review administered by the California Society of Certified Public Accountants using the American Institute of Certified Public Accountants Peer Review Program? ☐ Yes ☐ No (If no, see question 3b.)
- 3b. Was the peer review administered by another organization using the American Institute of Certified Public Accountants Peer Review Program? ☐ Yes (If yes, please provide the name of the American Institute of Certified Public Accountants administering entity.)

☐ No (If no, please provide the name of the Board-recognized peer review program that administered the peer review.)

4. What was the highest level of accounting and auditing service your firm provided during the three-year period encompassing your peer review? ☐ Audit ☐ Review ☐ Compilations w/disclosures ☐ Compilations w/o disclosures prepared using GAAP ☐ Compilations w/o disclosures prepared using OCBOA
5. What was the cost to have the peer review performed? \$ _____
6. How much time did your firm spend preparing for the peer review? ☐ 0 days ☐ 1-5 days ☐ 6-10 days ☐ 10+ days

I hereby certify, under penalty of perjury under the laws of the State of California, that all statements, answers, and representations on this form, including supplementary attached hereto, are true, complete and accurate.

Signature

Date



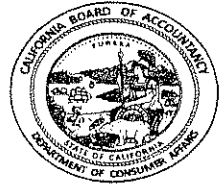
DEPARTMENT OF CONSUMER AFFAIRS
CALIFORNIA BOARD OF ACCOUNTANCY
2000 EVERGREEN STREET, SUITE 250
SACRAMENTO, CA 95815-3832
TELEPHONE: (916) 263-3680
FACSIMILE: (916) 263-3675
WEB ADDRESS: <http://www.cba.ca.gov>



APPLICATION TO BECOME A BOARD-RECOGNIZED PEER REVIEW PROGRAM (01/10)



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PEER REVIEW PROGRAM PROVIDER CONTACT INFORMATION

Please provide all requested information listed below. The public contact information will be posted on the Board's Web site with the list of Board-recognized peer review program providers. Please send written notification to the Board if there are changes to any contact information.

PUBLIC CONTACT INFORMATION

Name of Organization: _____

Address: _____

City: _____ State: _____ Zip Code: _____

Telephone Number: () _____ Fax Number: () _____

Toll-Free Number (if available): () _____

Web site address (if available): _____

Name and title of contact person to be placed on approval list: _____

The information in the gray-shaded box below is for Board use only, and will not be placed on the Board's Web site.

Contact Information	Internal Use Only
Name: _____	
Telephone Number: () _____	E-mail Address: _____
Address where correspondence should be sent: _____	
City: _____	State: _____ Zip Code: _____



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PEER REVIEW PROGRAM PROVIDER CERTIFICATION AND COMPLIANCE AGREEMENT

This agreement must be signed and returned with all materials evidencing compliance with Section 48 of the California Board of Accountancy Regulations.

I certify that the statements, answers, and representations in this agreement, the application material, and any supplemental statements, are true and accurate, including the following:

1. I have read Article 6 of the California Board of Accountancy Regulations specifying the requirements for receiving Board recognition to administer peer reviews in California and agree to comply with requirements pertaining to providers, provider recognition and minimum requirements.
2. I authorize the California Board of Accountancy and its Peer Review Oversight Committee to review relevant records to ensure compliance with the requirements of Article 6.
3. I certify that the supplemental materials accompanying the application are designed in compliance with Section 48 of the California Board of Accountancy Regulations, and authorize the Board or its designee to review the materials to ensure compliance.
4. As the provider, I agree to be the responsible party for all administered peer reviews.
5. I agree to comply with the provisions of Section 17500 of the Business and Professions Code, Division 7, Part 3, Chapter 1, regarding false or misleading advertising.
6. I am the program provider representative authorized to sign this Certification and Compliance Agreement.

Peer Review Program Provider

Authorized Signature

Date

Print or Type Name

Position

Company



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FINDING OF EMERGENCY

Assembly Bill (AB) 138 (Chapter 312) Statutes of 2009 requires the California Board of Accountancy (Board) to adopt emergency regulations to provide for the administration of the Peer Review Program.

AUTHORITY AND REFERENCE CITATION

Authority cited: Sections 5010 and 5076, Business and Professions Code. Reference: Section 5076, Business and Professions Code.

SPECIFIC FACTS DEMONSTRATING THE NEED FOR IMMEDIATE ACTION

AB 138 significantly amended existing peer review statutes for California-licensed accounting firms providing accounting and auditing services. AB 138 amended Section 5076 and added Sections 5076.1 to the Business and Professions Code. In AB 138, the Legislature included a requirement that the Board "adopt emergency regulations ... to establish policies, guidelines, and procedures ..." to implement, interpret, and make specific Section 5076. In amending Section 5076, the Legislature directed the Office of Administrative Law to consider the Board adoption of regulations pursuant to Section 5076 to be necessary for the immediate preservation of the public peace, health and safety, or general welfare.

INFORMATIVE DIGEST/POLICY STATEMENT OVERVIEW

Adopt Sections 39, 40, 41, 42, 43, 44, 45, 46, 48, 48.1, 48.2, 48.3, 48.5, and 48.6 of Title 16 of the California Code of Regulations.

Section 5010 of the Business and Professions Code authorizes the Board to adopt regulations for the orderly administration of the California Accountancy Act. Legislation enacted in 2009 amended Section 5076 of said Code to require that all California-licensed firms performing accounting and auditing services undergo a peer review a minimum of once every three years, and require the Board to adopt regulations specific to implementing, interpreting, and making specific Section 5076.

This proposal would adopt the above-referenced regulations to implement Section 5076, including regulations specifying requirements for Board recognition of a peer review program, defining terms specific to peer review, defining an accounting and auditing practice, standards for administering a peer review, extensions of time for

fulfilling the peer review requirement, exclusions from the peer review requirement, document submission requirements, enrollment and participation, notification of expulsion from a peer review program, reporting requirements for a board-recognized peer review program provider, withdrawal of Board recognition, and records of Board proceedings.

The objective of this proposal is to implement and make specific Section 5076 with regulations that create an effective and efficient Peer Review Program.

FISCAL IMPACT ESTIMATES

Fiscal Impact on Public Agencies Including Costs or Savings to State Agencies or Costs/Savings in Federal Funding to the State: Insignificant.

Nondiscretionary Costs/Savings to Local Agencies: None.

Local Mandate: None.

Cost to Any Local Agency or School District for Which Government Code Section 17561 Requires Reimbursement: None.

Business Impact:

The Board has made an initial determination that the proposed regulatory action would have no significant statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states.

The Board recognizes that the regulations to implement the Peer Review Program will create a new business-related cost to approximately 3,000 accounting firms licensed in California; however, the overall impact on the accounting profession is deemed to be minimal as the funds associated with firms undergoing peer review will be shifted to other accounting firms providing peer review-related services. Additionally, though peer review increases certain accounting firms' business-related costs, it makes these same firms more competitive with accounting firms licensed and operating in 41 other states that presently require licensed accounting firms to undergo peer review, as well as 3,000 California-licensed accounting firms voluntarily participating in peer review. Peer review will expose these accounting firms to best-practice techniques that will enable them to design and refine internal quality control systems, ensuring work is performed in conformity with applicable professional standards, and enable them to develop and refine the technical skills of their employees.

AND

The following studies/relevant data were relied upon in making the above determination:

California Board of Accountancy, "Staff Report on Continuing Education," September 1998 (**Attachment #1**)

California Board of Accountancy online *Customer Services Satisfaction Survey* (**Attachment #2**)

Impact on Jobs/New Businesses:

The Board has determined that this regulatory proposal has the potential to have a significant impact on the creation of jobs or new businesses or the elimination of jobs or existing businesses or the expansion of businesses in the State of California.

The Board is unable to quantify with any degree of certainty the potential effect of the proposed regulations on the creation of jobs or new businesses or the elimination of jobs or existing businesses or the expansion of business in the State of California. That said, the group that will see the most significant impact of this proposal will be those businesses performing accounting and auditing services that do not presently voluntarily undergo peer review. It is possible that some smaller firms, including sole proprietorships, who only perform accounting and auditing services on an infrequent basis, and that do not presently voluntarily undergo peer review, may cease performing these services in order to avoid the peer review requirement. In these cases, the Board believes that the vast majority of these businesses would shift the services the business provides to other accounting-related services such as taxation and financial planning, thus not subjecting them to the peer review requirement, but remaining in business. It is possible that a small number, particularly sole proprietors, may decide to retire or sell their business and join or merge with another firm.

In contrast, the Board believes that based on the increased volume of firms required to undergo peer review, there will be an increased market for peer review-related services. Accounting firms not presently providing peer review-related services may choose to expand their business services to address the increased demand for qualified peer reviewers. Further, the proposed peer review regulations allow for organizations to create their own peer review program, the byproduct being administrative staffing needs to administer the peer review program. The Board, however, is unable to provide an accurate estimate on the number of businesses and jobs created or eliminated by the proposed regulations.

Cost Impact on Representative Private Person or Business:

The costs impact that a representative private person or business would necessarily incur in reasonable compliance with the proposes action and that are known to the Board are:

- Costs associated with undergoing peer review to include: any administrative fees paid to the peer review program, fees paid to the peer reviewer, lost billable time

to prepare for the peer review, and time and money spent by certain accounting firms to complete remedial/corrective actions

- Cost of postage to submit the peer review reporting form (PR-1) by all Board licensees
- Cost of postage to submit required materials to the Board by accounting firms, outside of the regular license renewal period, that receive a substandard peer review report or are expelled from a peer review program
- Cost of postage to submit required materials by Board-recognized peer review program providers as part of the Board's oversight activities

Effect on Housing Costs: None

CALIFORNIA
BOARD OF ACCOUNTANCY

STAFF REPORT ON
CONTINUING EDUCATION

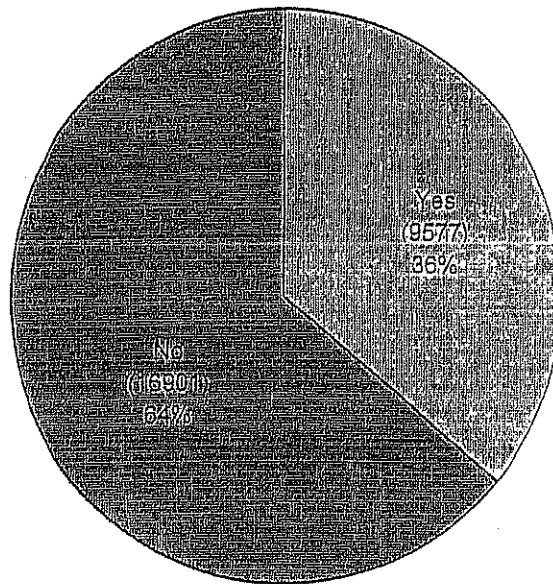
SEPTEMBER 1998

E. Financial Statements.

The renewal questionnaire asked licensees whether they had primary responsibility for, authority to sign, and had issued at least one financial statement during the two years preceding their license renewal (Note: in evaluating the following statistics, it should be kept in mind that licensees who worked on a portion of an audit, but did not have authority to sign or issue would not be included in these statistics.)

Of the 26,478 licensees renewing active during the data collection period, 9,577 licensees, or 36 percent of the sampled population, indicated they had issued at least one financial statement (audit, review or compilation) during the two years preceding their license expiration date.

Licensees who issued at least one financial statement
during the two years preceding their license expiration date
(Licensees renewing active)

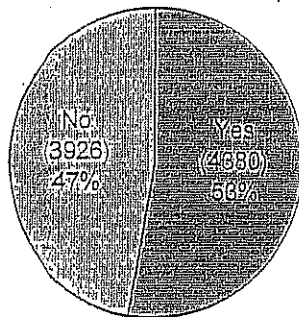


Total: 26478 licensees

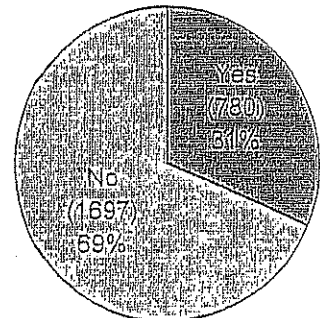
If extrapolated over an entire two-year renewal period, incorporating the entire licensing population, this would equate to a population of 13,607 licensees who issue some type of financial statements.

By firm size, licensees who are sole proprietors were the group with the highest percentage issuing financial statements – 53 percent. Licensees in large firms (over 100 licensees) had the lowest percentage – 20 percent.

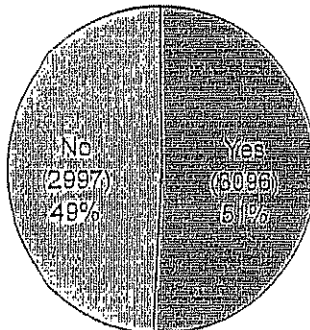
Licensees renewing active who issued at least one financial statement during the two years preceding their license expiration date
(By firm size)



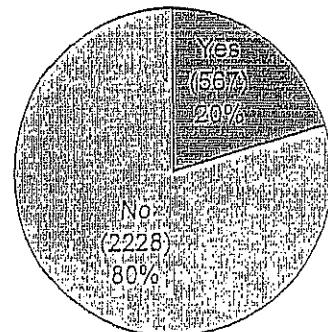
LICENSEES WHO ARE SOLE PROPRIETORS: 8306



LICENSEES IN MEDIUM FIRMS
(11-100 licensees): 2477



LICENSEES IN SMALL FIRMS
(2-10 licensees): 6093

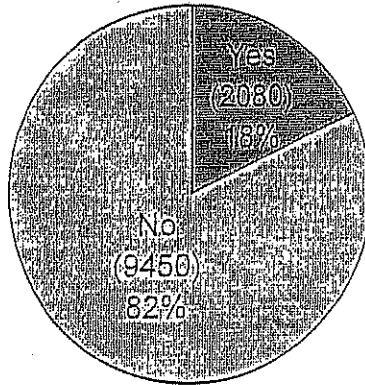


LICENSEES IN LARGE FIRMS
(over 100 licensees): 2795

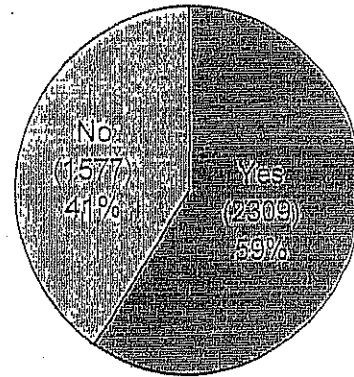
Total: 19671 licensees
(Does not include 6807 licensees who did not respond to the question of firm size)

By number of years licensed, those licensed 21-30 years had the highest percentage of licensees issuing financial statements, 59 percent, while those licensed 10 years or less were the lowest at 18 percent.

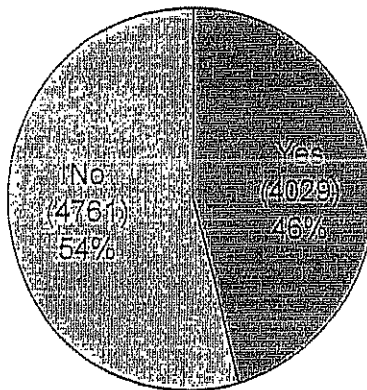
Licensees renewing active who issued at least one financial statement during the two years preceding their license expiration date
(By years licensed)



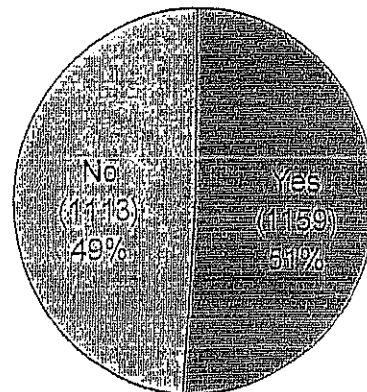
0-10 years: 11530



21-30 years: 3886



11 - 20 years: 8790



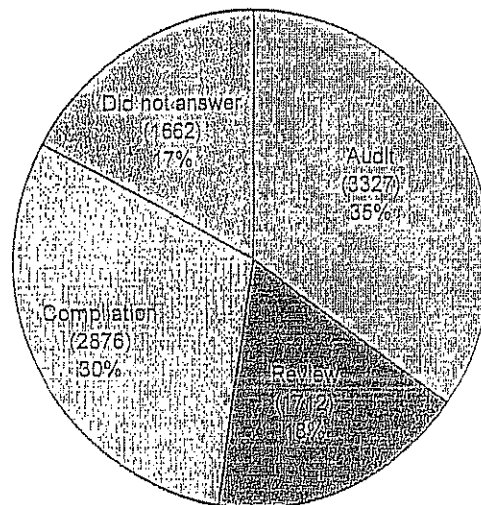
30+ years: 2272

Total: 26478 licensees
(For those licensees who did not respond to the "years licensed" question, this data was collected from the Board's licensing records.)

For all licensees issuing financial statements, 35 percent indicated their highest level of report issued was audit. Extrapolated over the entire licensing population, this equates to a total of 4,763 licensees who issue audits.

Note: This does not include licensees who may have participated in the audit, but who did not have the authority to sign and issue the report.

Highest level of report issued

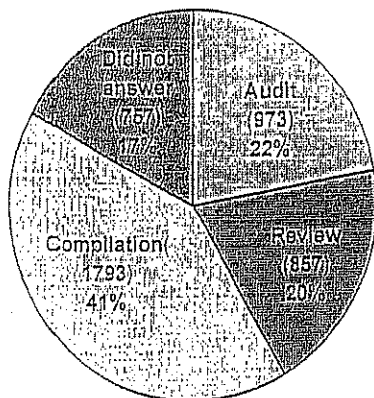


Total: 9577 licensees

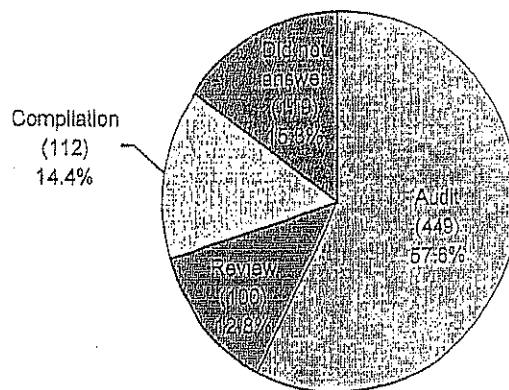
By firm size, more than three-quarters of licensees in large firms issuing financial reports indicated their highest level of report was audit, compared to 22 percent of sole proprietors.

Conversely, licensees in large firms issued the least number of compilations – three percent, and sole proprietors issued the most – 41percent.

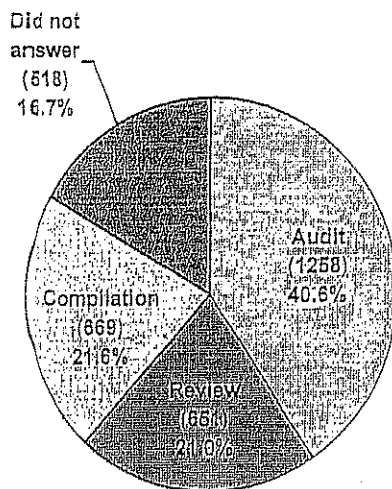
Highest level of report issued
(By firm size)



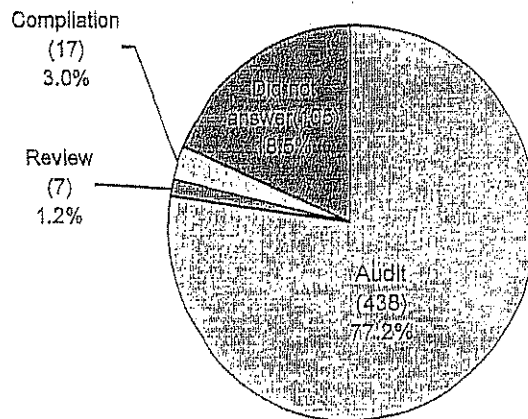
LICENSEES WHO ARE
SOLE PROPRIETORS: 4380



LICENSEES IN MEDIUM FIRMS
(11-100 licensees): 780



LICENSEES IN SMALL FIRMS
(2-10 licensees): 3096



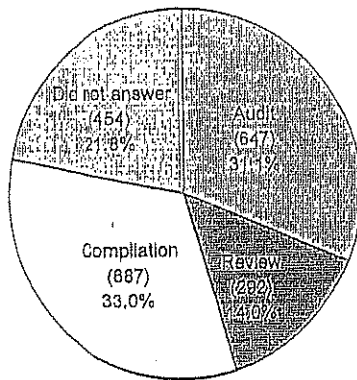
LICENSEES IN LARGE FIRMS
(over 100 licensees): 567

Total: 8823 licensees

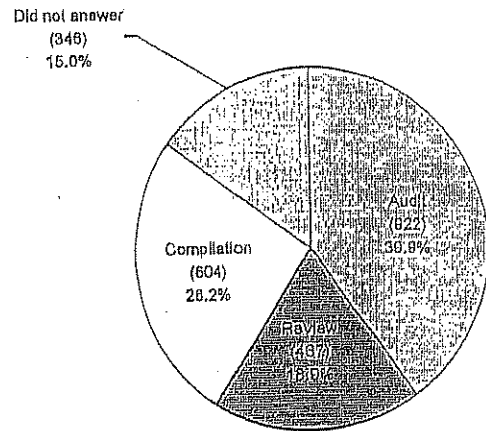
(Does not include 754 licensees who did not respond to the question of firm size)

By years licensed, significant differences were not observed in the highest level of report issued.

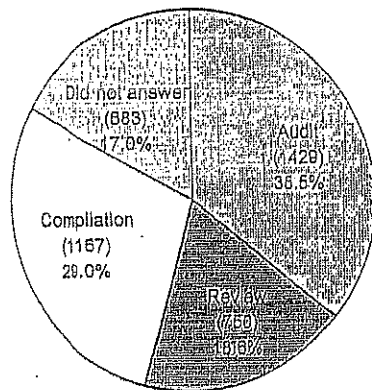
Highest level of report issued
(By years licensed)



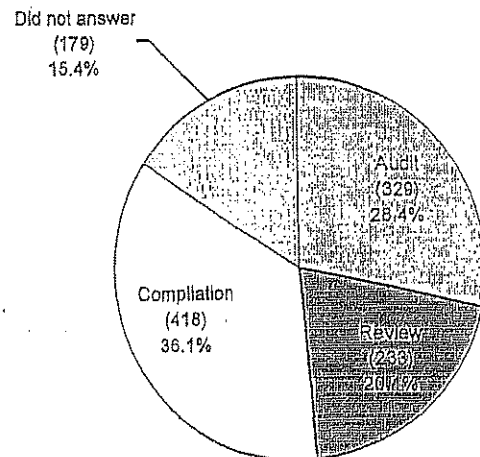
0-10 years: 2080



21 - 30 years: 2309



11 - 20 years: 4029



30+ years: 1159

Total : 9577 licensees

(For those licensees who did not respond to the " years licensed" question, this data was collected from the Board's licensing records.)



CALIFORNIA BOARD OF ACCOUNTANCY

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SACRAMENTO, CA 95815-3832

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Dear Client,

Attachment #2

The California Board of Accountancy (Board) is committed to continuously assessing and improving the level and quality of services provided to its clients. To assist us in this commitment, please take a moment to complete an anonymous survey about the quality of service you received from the Board's Licensing Division.

CUSTOMER SERVICE SURVEY

Which client type are you? (Mark only one)

- ☐ A CPA Exam Candidate
☐ A CPA Exam Candidate
☐ An Applicant for CPA licensure
☐ Other: _____ (Please specify)

How many times have you had telephone or email contact with the Board's Licensing Division, including the Examination Unit, Initial Licensing Unit, License Renewal & Continuing Competency Unit, and the Practice Privilege Unit, in the past 12 months?

<input type="checkbox"/> Never	<input type="checkbox"/> Once	<input type="checkbox"/> 2 – 5 times	<input type="checkbox"/> More than 5 times
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Statement	Very Satisfied	Satisfied	Neutral	Not Satisfied	Not Applicable
Courtesy and Professionalism: Are you satisfied with the treatment you received while interacting with Board staff?					
Responsiveness: Are you satisfied with the timeliness of communication from Board staff?					
Accuracy: Are you satisfied that the information on the Board's Web site is well-organized, thorough and easy to understand?					
Knowledge: Are you satisfied with staff's ability to answer your question(s) when contacting the Board by telephone?					
Overall Satisfaction: Overall, are you satisfied that the service you received from Board staff met your expectations?					

Additional comments and/or suggestions:

Thank you,

Client Services Unit
California Board of Accountancy

Dear California Licensee:

All responses are anonymous and no attempt will be made to identify participants.

1. Your primary employment is in: (Mark only one)

- ☐ Public accounting ☐ Education ☐ Government ☐ Private industry
☐ Law ☐ Not currently employed ☐ Other: _____

(If the public accounting box is marked, go to #2; all others may skip the remainder of the survey.)

2. Your firm type is: (Mark all that apply)

- ☐ Sole proprietor* ☐ Accountancy corporation ☐ Limited liability partnership
☐ General accountancy partnership ☐ Not applicable

* If you are a single-shareholder corporation, please mark the Accountancy corporation box.

3. Your primary responsibility/area of practice (more than 50%) is in : (Mark only one)

- ☐ Auditing ☐ Accounting ☐ Consulting ☐ General practice
☐ Information systems ☐ Management ☐ Taxation ☐ Other: _____

4. The number of licensees in your firm (in California):

- ☐ 1 ☐ 2-4 ☐ 5-10 ☐ 11-50 ☐ 51-100 ☐ Over 100

5. During the last two (2) years, did you issue at least one financial statement report as a sole proprietor or as a member of a firm? ☐ Yes ☐ No

If yes, please indicate the highest level of service performed:

- ☐ Audit ☐ Review ☐ Compilation ☐ Compilation where no report was issued

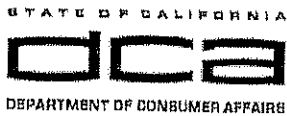
6. Did you undergo a peer review during the last three (3) years as a sole proprietor or as a member of your firm? ☐ Yes ☐ No

(Optional) If yes, what was the result?: ☐ Unmodified ☐ Modified

- ☐ Adverse ☐ Pending

7. As a sole proprietor or as a member of your firm, were you required to undergo the peer review because of membership with the AICPA or CAICPA? ☐ Yes ☐ No

8. Please indicate the overall cost your firm paid for having a peer review? (Specifically, costs paid to the administering entity and to the peer reviewer's firm.) \$ _____

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**CUSTOMER SERVICE SUVEY
CERTIFIED PUBLIC ACCOUNTANT STATISTICS**

As of September 14, 2009

Employment**Total Number of Responses: 1862**

Public Accounting:	915/1862	49.1%
Education:	32/1862	1.7%
Government:	133/1862	7.1%
Private Industry	576/1862	30.9%
Law:	16/1862	0.9%
Unemployed:	78/1862	4.2%
Other:	112/1862	6.0%

Firm Type**Total Number of Responses: 916**

Sole Proprietorship:	367/916	40.1%
Accountancy Corporation:	240/916	26.2%
Limited Liability Partnership:	241/916	26.3%
General Accounting Partnership:	70/916	7.6%

Area of Practice**Total Number of Responses: 916**

Auditing:	151/916	16.5%
Accounting:	73/916	8.0%
Consulting:	36/916	4.3%
General Practice:	56/916	6.1%
Information Systems:	3/916	0.3%
Management	12/916	1.3%
Taxation:	549/916	59.9%
Other:	34/916	3.7%

Financial Statement Reporting

Total Number of Responses: 916

Yes: 482/916 52.6%

No: 434/916 47.4%

Highest Level of Service Performed

Total Number of Responses: 482

Audit: 222/482 46.1%

Review: 99/482 20.5%

Compilation: 153/482 31.7%

Compilation w/no report: 14/482 2.9%

Peer Review

Total Number of Responses: 916

Yes: 407/916 44.4%

No: 509/916 55.6%

Peer Review Result

Total Number of Responses: 407

Unmodified: 393/407 96.6%

Modified: 12/407 2.9%

Adverse 1/407 0.2%

Pending 7/407 1.7%

Peer Review Required

Total Number of Responses: 407

Yes: 369/407 90.4%

No: 39/407 9.6%

Peer Review Costs

Total Number of Responses: 407

Over \$1,000: 135/407 33.1%

\$500-\$1,000: 36/407 8.8%

Less than \$500: 195/407 47.8%